



“Marico Limited Q2 FY 2014 Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2FY14 Results Conference Call of Marico hosted by IDFC Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, you may signal for an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Vora from IDFC Securities. Thank you and over to you Sir!

Nikhil Vora: Thanks Lavina. Welcome you all to this Q2FY14 Earnings Conference Call of Marico Limited. We have with us the senior management team of Marico represented by Milind Sarwate, Group CFO, Saugata Gupta, CEO, Chaitanya Deshpande, EVP and Head M&A and Investor Relations and Vivek Karve, EVP and Head Corporate Finance. You can just lay down on the first just everything brief on Marico’s performance and then you can throw up the floor for Q&A, over to Milind!

Milind Sarwate: Good evening everyone. Welcome to the earnings call for Q2 of FY '14. We have put out a lot of information in public domain a few hours ago. I will not therefore get into specific numbers in details, because the information is already with you. I would just capture some of the highlights of this quarter.

The quarter had shown reasonably good earnings growth at 25% at the net profit level. Our margins are expanded by about 210 basis points. Volume growth has however been low both in India and overseas, although these are primary growth numbers; and on the secondary growth numbers we see reasonably good traction.

Our rural growth has been much better than our urban growth. Modern trade growth, however, has been under lower side. Our markets shares are intact and have in fact moved up in some of the categories. Our two principal new products Parachute Advanced Body Lotion and Saffola Oats have continued to do well, continued to hold good market share.

We also have a corporate action, which is still ongoing in the form of demerger of the Kaya business into a separate listed company. So an eventful quarter full of various developments, some of them seemingly are conflicting such as the low volume growth, but high margin growth. So, I am sure you all will have a lot of questions to ask from us, so over to all of you.

Nikhil, I am handing it over to the conference.

Moderator: Thank you very much Sir. Participants will begin the question and answer session. We have a first question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir, congrats on a good set of numbers. I wanted to understand the price increases that you have taken till now, are they enough to offset the cost increases, which have happened till now?

- Saugata Gupta:** See, we have taken one round of price increase already in the market, the second round is getting into the market, so overall price increase is going to be 9% in Parachute and this will offset the input costs to a large extent. Obviously, we would like margins to operate within a band that maximizes volume growth. In the case of hair oils, the price increase has been 6%, which is more than sufficient to cover up the costs of packaging material and liquid paraffin, which anyway increased to a certain extent, but also corrected itself when the rupee appreciated back into the Rs.61, Rs.62 level.
- Percy Panthaki:** Generally we have noticed in the past that when you take a price increase or decrease versus when you actually take it and when it actually gets affected in the market, there is about a one-month lag, etc. So is that going to happen this time around also, that although you have taken the price increases maybe as of today in your P&L it will reflect only maybe a month later?
- Saugata Gupta:** In Parachute, we have taken two consecutive price increases – one has already got implemented into the market. So we are realizing the price increase already. In the case of hair oil also, in most of the SKUs as of the third week of October, we are realizing the price increases. We also did a one-time stock norm reduction in the distribution system, that has eased the price changes much faster into the system.
- Percy Panthaki:** Can you explain why the copra price inflation is so high, given that I mean there is no such big inflation in palm, etc?
- Saugata Gupta:** What happened is that there is a bit of supply/demand mismatch. As you know in the case of commodity sometimes it is based on certain future expectations and not necessarily backed by strong fundamentals. . So, we expect a cooling down to happen sometime in February, March.
- Percy Panthaki:** My second question is on Shanti Amla. Now you have reached a very good market share there almost 30% volume market share from 9%, 10%, three, four years back. So, but of course, there is price for your brand and the margins on this would be probably wafer-thin. So what are your thoughts on monetizing the investments that you have made over the last three, four years?
- Saugata Gupta:** I think we look at the entire value-added hair oil strategy as a portfolio play and not on a single individual brand. We have a broad participation strategy and we believe that the overall blended margins of the value-added hair oil portfolio are fairly satisfactory. In the Amla category, there is enough headroom for growth. As you know that we today have around 29% market share. We have picked up 7%, 8% in the last couple of years. We believe that this journey needs to continue. We have to ensure that the entire margin or blended margin of the portfolio remains steady. Each brand has a role to play in that. So, therefore, as of now, as I said that Shanti Amla has been playing the role of in terms of price destructor, but I think I would say, it is not a price destructor, more a value destructor because we are giving equal if not superior product at a certain price, which we believe, can drive category expansion. There will be certain brands like Hair & Care which plays at the upper end in terms of margin, where they are used as a sort of upgrade. So we will look at the overall margin and we are okay with it as long as there is

significant growth in the system and we continue to gain share, because that also helps us because at the end of the day we need a certain critical growth because in the next one or two years we will focus aggressively on driving rural growth. We are in the process of doubling the feet on street. Therefore it is important that certain brands will play multiple roles within the portfolio.

Percy Panthaki: My final question is on the demand front. I mean, your primary sales, obviously, is not the best indicator for this quarter, but if I look at the secondary sales, I mean your Parachute at 7% and Saffola at around 9%, although they are reasonably good numbers, we would like to see these numbers move up, maybe in Parachute, couple of percentage points, maybe in Saffola 3, 4 percentage points. So do you think that is likely to happen in the short-term?

Saugata Gupta: See if you look at traditionally, I think we are much more price competitive as far as Parachute is concerned when there is inflation as opposed to deflation. We have now entered the inflationary scenario as far as Parachute is concerned. We believe that this number could go up a little. Saffola is a real different situation, because if you look at the FMCG demand, the slowdown which we are seeing in the FMCG demand is at the top end. So Saffola actually operates there. So Saffola we believe that it will be more 9%, 10% going forward in the next one or two quarters.

Percy Panthaki: But don't you think that this Saffola growth has been subdued for more than a year now and therefore you should see some base effects and therefore your volume growth should improve?

Saugata Gupta: The base effect correction while it has happened, at the same time there has been, I think, a little bit of a demand softening also at the top end. So while existing consumers continue to be loyal to Saffola, the rate of adoption into this brand has slowed down given the kind of a price premium. That we are witnessing across all categories, which are actually not necessarily discretionary, but at the upper end where there has been a softening of the growth rates that we have witnessed maybe three, four quarters ago, especially in urban. Having said that, we are prototyping Saffola potential is rural. We have taken one state and we have prototyped in the last two, three months and we have got good results. We will see how it pans out – because we believe that there is enough aspiration and purchasing power in the rural. We have made some changes in Saffola packaging, so that it can withstand the challenges of rural distribution. That could be one more potential upside headroom for growth in the long-term of Saffola, because urban we believe is going to remain challenging over the next couple of months.

Percy Panthaki: What is your take on the competitive landscape for brand like Saffola?

Saugata Gupta: Yes, I think the competitive intensity has increased, especially because of one player. Our endeavor has been to actually offer the best possible technology to the consumers, so we have launched Saffola Total. Saffola Total is state-of-the-art product in terms of not only the right blend; it is also a very good antioxidant power. So we will continue to innovate and I think one

of the things we perhaps have not done in the last two, three years and we will increase the pace, is the pace of innovation in the segment.

Moderator: Thank you Sir. The next question is from the line of Sachin Bhatia from Barings. Please go ahead.

Sachin Bhatia: Congrats on the good set of numbers. I wanted to check, this time you mentioned that the growth in the primary sales during the current quarter was slow due to one-time pairing down of the stocks. Can you give some color on what was the stock levels in the trade last year same quarter and this year and how is it going forward?

Saugata Gupta: This is not trade. This is distributor stock. We have reduced our one-time stock norms in the distributor and this is for our maintenance and enhancing our trade equity. The way it will operate is like this. You see a distribution system, especially in this kind of a year where there has been deceleration in volume growth, the cost structure of a distribution system, especially in inflationary scenario increases by 12% to 15%. Now when there is deflation, the volume lags while value growth lags volume, what happens is the cost structure of a distribution system gallops ahead of our earnings and that is the reason to maintain and enhance trade equity, and we wanted to do a one-time correction in the stock norm. It does not affect anybody, because at any time it does not impact off-take or service levels. It actually cleans up the system hygiene and as an organization, we would like to ensure that we maximize investments to drive demand generation and not investments in stock. We did this in July and then subsequently we believe now it is a far smoother system and as I said one of the benefits we get is that the price increase in Parachute has reached the markets in three weeks whereas in a normal circumstance it would have taken four weeks.

Sachin Bhatia: Can you just share what could be the quantum of correction you would have taken in the quarter?

Saugata Gupta: You can make out from the percentage. So the difference is around 4%.

Sachin Bhatia: 4% okay.

Saugata Gupta: Volume terms. So it is a 4% differential between primaries and secondaries.

Sachin Bhatia: This has led to 4% differential you were saying, but I just wanted to check like what would be the differential or the impact you have done at the actual inventory level being held by the trade or the distributor. What would be that percentage would be?

Saugata Gupta: Yes, it would be around, say, Rs.25 Crores, Rs.30 Crores.

Sachin Bhatia: 20 to 30 Crores, okay. One more thing, you have been talking about like some stress on the premium side you are seeing of the portfolio. Is it a similar trend you have witnessed? Or stress

you have witnessed in the youth brands? Is that also a reason where we can say at this time there is a low growth we have seen in this quarter?

Saugata Gupta: See, as far as the youth brands is concerned, I think you have to look at the full half year, because last year we took the business in June and we were doing pipeline filling in June and July. So if you take the last year's base, which was Reckitt's base in up to 20th June in our sales and our wholesales in the first half, which is still growing at 30%, we expect to grow at 25% for the balance of the year and next year going forward through a mixture of innovation and continuous investment. However, yes, I think in a lot of categories, which has been growing at, say, 30%, 40% and those which were also urban dependent, the sales growth have gone down in those categories in the last nine to 12 months.

Sachin Bhatia: Thanks a lot. That is all from my side.

Moderator: Thank you sir. Next question is from the line of Aditya Somani from Goldman Sachs. Please go ahead.

Aditya Somani: Hi good evening. Actually I had a question on your international margins, which has expanded significantly. Could you give us the reasons for why they have expanded?

Saugata Gupta: As far as international business is concerned, the significant portion of the expansion has been because of copra prices which continued to be low in Bangladesh while we had not taken, unlike in India, any price reduction. So that has been one of the significant factors. Our Vietnam business continues to do well and there has been margin expansion there. Quite separately, we have started the process of cost management and enterprise wise management, which we started in India last year, in international business. So that has also kicked in and that has also given some benefits. However, we believe that this margin is not a sustainable margin. We will be happy if we can maintain the international business margins to 13% to 14% over the next few quarters.

Aditya Somani: This 13% to 14% will be EBITDA margins, right?

Saugata Gupta: Yes, that is right. So, it was around 8% last year and we had said that we will move to 14% perhaps in two to three years. We are far more confident today of getting that margin this year and going forward in next year itself.

Aditya Somani: Thank you.

Moderator: Thank you. Next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir thanks for the opportunity. My first question is on the distribution front. 1000 feet on the street you have deployed and so, what is the plan there, in how many rural areas you are planning

and what is the bench you plan to achieve in the rural and is that the reason why the salary cost has increased sharply both QOQ and YOY?

Saugata Gupta: As far as rural is concerned, as you maybe knowing, compared to a lot of FMCG companies our rural contribution is significantly lower. We started this drive about three years ago from 25% we have moved to 30%. Now, we believe that in terms of long-term or in the immediate term the growth potential of middle India and rural is significantly higher than urban. We also believe that investment behind direct distribution gives far better quality of growth as compared to investing through the wholesale channel and also direct distribution and reach actually creates entry barriers for competition. So, we have identified that as a significant thrust area and we have started the process of investment and not only investment but also automation. Today a significant portion of our rural sales force which is third-party sales force are PDA-enabled and IT-enabled. So, we will continue to do this journey and we believe that we will move rural contribution to 35% over the next two, three years.

Abneesh Roy: Other FMCG companies shares the number of outlets being serviced directly. So, 1000 feet that does not give us an idea really. So, if you could share in terms of number of outlets how it increases, in terms of percentage or in terms of actual numbers?

Saugata Gupta: So we should be able to increase our outlet direct reach by around 15%.

Abneesh Roy: Sir, one follow-up on that. You have mentioned in your note that in terms of chemists we currently service only 15%, out of Rs.5 lakhs, only Rs.75,000. So, if you could tell us how we manage to decrease this gap and for the other deo plus which do not have too much of a product portfolio, for example, Vini. Vini will be having how much some sense on that? Is that the reason why they have a higher market share than us?

Saugata Gupta: We had a gap in our portfolio in chemists because we didn't have a right portfolio. Now with the Youth brands acquisition, coming in, and also we are entering into some of the other personal care category product like Skin Care, we have a facial level of portfolio. I think one of the biggest gains of the Youth brands acquisition has been access to that reach. Now we will continue to, increase it in a gradual manner over the next two, three years. Coming to the question on competition, the deo is not a chemist skewed. It's actually a general trade and a wholesale skewed category. So a significant portion of the deo actually also goes through the wholesale and cosmetic channel and not necessarily the chemist channel. The chemist channel might not necessarily give you an edge on deo, but there are certain other brands like Livon Hair Gain which can give up get fillip through the chemist channel.

Abneesh Roy: My last question is on your international business in Bangladesh 1% sales growth so why it's low? Second is we have launched Livon in Bangladesh, so what is the expectation there and do we have plans for deo launch in Bangladesh at some stage and if you could tell us in GCC when do we expect the decline to be arrested, because distribution has been a challenge there?

- Saugata Gupta:** So in Bangladesh, there was a temporary blip in the growth rate due to the current political situation. There obviously are uncertainties in the current political situation. Subject to that being stable, the growth will be back in quarter three and quarter four. Livon has just been launched in Bangladesh. It's very early days yet. Yes, we are also launching Set Wet deos in Bangladesh as of now and we are also looking at some other part of the India portfolio, which we can actually see some potential in Bangladesh. As far as GCC is concerned, the business is turning around, so the performance has been better than what it was in the last year. As you know that structural changes takes time, and we believe that we will be completely out of the wood sometime in quarter four to quarter one next year. So it is taking a little longer than usual, but we have done significant corrections in terms of the distribution, GTM processes, and cost structures.
- Abneesh Roy:** One follow-up on Bangladesh. Is the market ready for Livon or kind of products and deo or we have to create that market?
- Saugata Gupta:** In certain cases, there are already some categories that exist. In a lot of categories there is gray market, but organized players in FMCG are driving that category. Deos, as a category exists in Bangladesh.
- Abneesh Roy:** Thanks and all the best.
- Moderator:** Thank you. Next question is from the line of Mr. Prashant Kutty from Emkay Global. Please go ahead.
- Pritesh:** This is Pritesh here. Just a broader question on the edible oil and especially on the Saffola brand; so vis-a-vis say the commodity price, your pricing, premium would have reduced from a peak of about 100% to about 50%. When do you think or what is the scope or efforts in order to rectify this or is this actually the new play in this business?
- Saugata Gupta:** I think the premium will fluctuate, depending on other players, but what we have realized is that there is a certain softening of in the urban demand. So therefore we might have to maintain a certain price point to ensure that we get a certain level of growth. Now, we would have perhaps been happier to get a 13% to 15% growth in these brands, but in the immediate term, which is in the next couple of quarters, we see the growth at around 10% levels. In terms of margins, however, as we said that we would like to continue to maintain a certain margin around the brands, but ensure that we have continuous innovation. We didn't have significant innovation till four years ago when we had launched Saffola Active. There has been little innovation in this category. So, Saffola Total is the first one which we are doing and we believe it is a variant which is extremely good for the consumer, and you will see some more innovation in the next three to four quarters moving forward.
- Pritesh:** I will just extend this question a bit, in relation to other brands or in relation to market, the problem would persist at different points in time. Let's say as a brand what can be done in order

to overcome this hurdle. So, one you said innovation, is there anything as a brand which can be done in this part of the business?

Saugata Gupta: We will do three things. One is we will increase the rate of innovation. We will ensure that the pricing is adjusted and optimized to ensure that there is a fine balance between margin and volume growth. And third is rural distribution. We have not been driving rural in this brand. It was a very urban centric and a six to seven metro brand with a huge modern trade skew. Given the fact there is enough purchasing power in rural, there is enough opportunity for the brand which we had not been exploring. Saffola has been very restricted in terms of distribution, so we are now starting from prototypes on that.

Pritesh: My second question is, with respect to the four-year gross margin change and in this three, four years you would have gone through obviously two rounds of a large commodity cycle. Is the observation correct that despite this and despite the fact that the Saffola's premium through the commodity would have reduced. The gross margin changes is largely a function of the fact that your value-added hair oil portfolio in the overall share would have grown to extent, which offset any negative feet through on account of Saffola?

Saugata Gupta: I do not think Saffola gross margins had suffered in the last four years, because at the end of the day we know we operate across multiple blends, which have a certain kind of a margin band. So therefore, there has not been significant erosion in Saffola margins at all. But, yes, Parachute obviously has gone through a certain band, because of the fact that we have gone through two cycles and the hair oil is something which has been pretty stable.

Pritesh: So, that would have offset any impact on account of the top two brands, which is Saffola and Parachute?

Saugata Gupta: Yes.

Pritesh: My last question is the press release talks about a certain statement on domestic FMCG margins being sustained at about 17.5%, if you could tell us what stems that confidence and what are the drivers if any, because that's the statement for the balance part of the year?

Saugata Gupta: Our first half margins were actually higher. There has been input cost increases of which a significant portion has been passed to the consumer, and we have a certain feel of the certain A&P which we are going to spend across the year. So, it has been based on that. This number of 17% to 18% is something, which the domestic business has been delivering for the last couple of years. So, there is no change in guidance.

Pritesh: Many thanks and all the best to you Sir.

Moderator: Thank you. Next question is from the line of Bhavesh Shah from CLSA. Please go ahead.

- Vivek Maheshwari:** This is Vivek. First thing is if I have understood correctly, the one-time impact of inventory levels, you know recalibration is done right. There is not going to be any impact in the third quarter?
- Saugata Gupta:** No. There will be no, this is a one-time correction yes.
- Vivek Maheshwari:** One time correction okay. If I look at your secondary sales, 7% for Parachute; was it given that the base was also supportive compared to what it was in the first quarter? Where you happy with these volume growths or you thought these were still lesser than what you would have projected or anticipated?
- Saugata Gupta:** Maybe 1%, 2% more could have been better, but having said that, if you look at the base, I think the actual slowing down started happening more significantly in quarter three last year.
- Vivek Maheshwari:** The reason I am asking is, first quarter for example, if I recall correctly, the base was I think 16% to 18%, so to that extent the base was lesser over here?
- Saugata Gupta:** Base was definitely lower, that is why I said. I think 8% or 9% would have been better. But if you look at the growth rates of Parachute, in quarter one was 18%, it has moved down to 9. In quarter three, last year was moved to 6% and then to 5%. So the real slowdown or the base correction is starting in quarter three.
- Vivek Maheshwari:** So basically, the base impact you are saying will play out in the second half of this year then?
- Saugata Gupta:** Yes.
- Vivek Maheshwari:** Third thing, on the advertising bit, minus 10% YOY, I mean is it because of?
- Saugata Gupta:** I think you will have to look at it from an annualized basis. So annualized we don't see any significant change. It sometimes happens because of certain innovations which get polarized into a quarter. Also, we have done a significant A&P reduction in one or two international businesses. We will look at an overall A&P around 12% for the whole year.
- Vivek Maheshwari:** Okay and last question, the Kaya business is not going to be there in the base from or rather from this quarter onwards. So if you were to remove the impact of Kaya in the base quarter, also in the second half, where would be the gross margins x of Kaya last year? Is it possible to get that number?
- Anubhav Rastogi:** Vivek, in the base quarter, the gross margins will be 52% without Kaya.
- Vivek Maheshwari:** Without Kaya in the second half, right?

- Anubhav Rastogi:** Now, if you see in the information update, towards the end we have also given FMCG numbers only.
- Vivek Maheshwari:** But those are first half, right, not the second half, because Kaya basically essentially pulls down or was increasing the gross margin which is coming down. So can I take the first – this quarter as the base and model for the second half? Or is there any seasonality which I should be aware of as far as the...
- Anubhav Rastogi:** What we can do is offline I will share with you as to gross margins for FMCG business.
- Vivek Maheshwari:** Perfect, thanks and all the best sir.
- Moderator:** Thank you. Next question is from the line of Prakash Kapadia from I-Alpha Enterprises. Please go ahead.
- Prakash Kapadia:** Thanks for taking my question. Basically two questions. One on Saffola, competition has been taking price increases. I think even now we are continuing with the promotions on Saffola Gold. So if you could share some insights on that? And on Saffola Total, how is the pricing as compared to Saffola Gold? On Saffola Muesli, what are the trends we are seeing and how large is the market if you could give some insights. That is the first question? Secondly, sir, freight costs are at around 4%, 4.5%. So what are we doing in the rising freight scenario, are we focusing on key geographies are we trying to increase sales in certain areas, if you could share some insights?
- Saugata Gupta:** Coming to Saffola, yes Saffola had some promotions in quarter two. As of now, we don't have any promotion in the market as in October. Saffola Total has just been launched so it is too early to comment on it, but we believe that it is a blend which is very good for the consumer, and therefore we have belief in it. As regards to freight, some of the cost increases have been passed on to the consumer. Having said that last year and this year, we made continuous efforts in terms of enterprise cost management. We ran that program in the Indian business last year and we have started it in the international business this year to ensure that we optimize the cost structure.
- Prakash Kapadia:** So there is no current promotion on any of the variants in Saffola.
- Saugata Gupta:** What you've seen in the market would have been in the September quarter.
- Moderator:** Thank you. Our next question is from the line of Mr. Shariq Merchant from Ambit Capital. Please go ahead.
- Shariq Merchant:** Good evening Sir. This is on the primary and secondary sales that you had highlighted. You said that one of the drivers for this was because of the value the growth was lower than the volume growth. Now given how raw material prices have moved and the fact that you have taken price increases already, do you see this reversing in the next quarter?

- Saugata Gupta:** No, we will not, because at the end of the day, if we can manage with lower stocks in the system, it leads to much better system efficiency and across the level lower working capital, and I think we can then invest behind this in demand generation.
- Shariq Merchant:** So, this would basically increase your working capital cycle by roughly, inventory cycle by roughly two to three days. Would that be a fair statement?
- Saugata Gupta:** No, what?
- Shariq Merchant:** So you are reducing the amount of inventory in the system. So it has a positive effect on your inventory.
- Saugata Gupta:** Distributor trade, not ours. We are talking about the distributor.
- Shariq Merchant:** It is only at the trade level but what?
- Saugata Gupta:** Yes, trade level. This stock correction is not in our book.
- Shariq Merchant:** But would not flow down to your book as well?
- Milind Sarwate:** That is what we are trying to explain because it has flown to our books, the growth has been little subdued.
- Shariq Merchant:** I think it will take it offline to understand this better. The second question was on the cash balance you are maintaining, so if I look at your balance sheet, it is roughly 600 odd Crores of cash and you have a similar amount of debt. Is there any specific reason that you are maintaining such a high cash balance?
- Vivek Karve:** This is Vivek here. See if you look at our total cash balance, it is not just in India, it is also in some of our overseas subsidiaries. So, for example, Bangladesh and Vietnam they have substantial investments, which are passed in bank FD. Now even in Marico Limited, which is in India the debt is in the form of a long-term external commercial borrowing that we had taken when we acquired the Vietnam business. So, that is a locked in debt and the surplus is lying in the securities such as liquid funds, et cetera.
- Shariq Merchant:** You do not intend to bring this to India, or utilize it in any other way?
- Vivek Karve:** We would have observed that in the second quarter, we have brought back almost Rs.40 Crores of dividends from Bangladesh.
- Shariq Merchant:** Fair enough. One housekeeping question on your EBITDA margin since we do not have comparable numbers, would it be possible to share the EBITDA absolute number and the margin for the base quarter as well at the consolidated levels?

- Milind Sarwate:** It would be there in our website also.
- Shariq Merchant:** No, this is after adjusting for the Kaya business?
- Vivek Karve:** Yes, we had shared with you a summary, which is sales, PBT and PAT, if you see the notes to the financial results, it is possible for us to share with you even the EBITDA. I believe it is already there in the information update, maybe you can just refer to page number 14. In case, you still need something you can always talk to us.
- Shariq Merchant:** Great that is it from my side. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Mr. Ashish Kumar from Elara Capital. Please go ahead.
- Ashish Kumar:** Just had a few balance sheet related questions. Just wanted to know the figure of accumulated depreciation if you could share, I mean, there is net fixed asset that we have given in the balance sheet in September. If you could give the figure of accumulated depreciation and...?
- Vivek Karve:** We do not have it readily right now, can we share this with you offline?
- Ashish Kumar:** Okay. And secondly wanted to understand trade payables and receivables have gone up quite a bit if I look at comparable balance sheet March 2013 ended, so is it due to this destocking that happened and is it going to correct by the end of the year or is it...?
- Vivek Karve:** In fact increase in the debtors compared to March is a normal phenomenon. We would see this, it is not for the first time, it is always the case and the trade payables have gone up primarily because of A&P expenditures, which we will see in the liabilities and there are certain suppliers' credit which we have taken, which is typically part of the current liability.
- Ashish Kumar:** So this will normalize to the last year's March levels by the end of the year.
- Vivek Karve:** No, suppliers credit is a very event based phenomenon. In some years, it may happen; in some years, it may not happen. So, it may not be representative of the current liability level that may be sustainable.
- Ashish Kumar:** The goodwill has come off in the book so how will this move forward?
- Vivek Karve:** The reason for goodwill coming down is primarily on account of the capital reduction scheme that was approved by the Bombay High Court in this current year in one of our subsidiaries. So the current level of goodwill, which is about 250 Crores odd, will continue going forward. There is an impact of about 150 Crores, which is also because of Kaya demerger.

- Ashish Kumar:** The tax rate in FY'15, the notes say that it will increase to about 30%. I think till earlier we had guided for some 27%, 28%, so am I correct in that, FY'15...?
- Vivek Karve:** In the first quarter of the current year also we had given a guidance of 30% only.
- Ashish Kumar:** If I may ask one more question on the Bangladesh business, could you guide something on how the outlook is on the volume growth front?
- Saugata Gupta:** There was a little bit of an aberration in quarter two, but we expect to get back into good volume growth levels around 8% to 10% over the next three, four quarters. It will not necessarily be through Parachute because as you know, it has 80% market share in the branded coconut oil category. But it's imperative that we continue to invest heavily behind expanding the portfolio into certain innovation category. We have already entered the value added hair oils, powdered hair dyes and post wash leave-in conditioner categories. However, I want to qualify this by saying that, in the immediate term, it is subject to the political situation and the economic stability prevailing in Bangladesh. If the upcoming election in Bangladesh goes well, given the fact that we have significant margin, we will plough it back to drive growth and de-risking the portfolio from a single engine Parachute.
- Ashish Kumar:** The 8% volume growth that is mentioned in investor update, is it for the entire Bangladesh business or for value-added hair oil or other portfolio?
- Saugata Gupta:** 8% volume growth is in the Value-added hair oils category.
- Ashish Kumar:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Mr. Amit Sachdeva from HSBC. Please go ahead.
- Amit Sachdeva:** Most of my questions have been answered. But if you look backward little bit I can bit now to A&P spends. Do you see there is a large reduction compared to last year and how do you see going forward considering the demand has been weak and competitive intensity remains high, would it mean that either we are under-investing in A&P? How do you see going forward? What are your thoughts on that?
- Saugata Gupta:** I think you have to look at A&P over an annualized basis rather than looking at a quarter. Last year, at this point in time, we had just got the Paras business on board. We had certain innovations. We had invested heavily behind these in Q2 last year. Also, in international business, we have reduced certain A&P spending in certain markets. So, overall, we see the A&P to hover around 12%. You have to see from a MAT level rather than looking at from a quarter levels. So we do not see that as a significant reduction if we look at moving annual total level.

- Amit Sachdeva:** So 12% you are comfortable with for the full year, it perhaps would give you the enough share of voice and that is required for the competitive intensity we maintained?
- Saugata Gupta:** As of now, the perspective is that.
- Amit Sachdeva:** Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Mr. Pratik Biyani from Standard Chartered. Please go ahead.
- Sanjay Singh:** This is Sanjay here. Sir, two questions. One is I am sorry, again about the pipeline thing. The understanding is if you are saying that value has been lowered and volume and distribution costs have gone up, basically you are saying that ROI of the distributor had gone down and hence the inventory reduction is a way to boost up the ROI, am I correct in my understanding?
- Saugata Gupta:** That's right, because as I said, trade equity is very critical for us. So we did a one-time reduction of our stocking norms and we believe that current service levels and the supply chain efficiencies are such that we will not lose secondary sales even if we reduce the stock in trade.
- Sanjay Singh:** So in your norm reason or whatever if it was 10 days it's come down to 5 days or something of that sort?
- Saugata Gupta:** Yes.
- Sanjay Singh:** In your distribution norm per se, yes.
- Saugata Gupta:** We don't intend to obviously go back on it.
- Sanjay Singh:** Now secondly, you know although it's just an accounting entering in a sense but you have again taken the High Court approval to adjust the book value of the Paras acquisition. Now I know this artificially boosts the ROE and it doesn't give investors looking at the Company for the first time a true sense of the ROE because we don't know how acquisition ROEs are doing and at the end of the day somebody is looking at efficiency of capital whether it is acquisition or whether it is not. So, do you think it is a right approach, because we have done this earlier also during Nihar and again this has been done, my sense is it doesn't give a right picture to investors looking at the Company with the first time and they are not aware of the history of the Company?
- Vivek Karve:** I will try and answer this question in two parts. The first thing is does the law of the country allow us to do it? Probably yes. The second question is when we do this we are trying to create a level playing field for the brands which are in-house brands, which we have developed over a period of time. Otherwise there would be a charge on the internal P&L of the brands, which we have acquired.

- Sanjay Singh:** There will be no depreciation. I mean there will not be any depreciation you can still...?
- Vivek Karve:** There is always an internal charge.
- Sanjay Singh:** I did not understand the internal charge part of it.
- Milind Sarwate:** I think the depreciation is mandatorily required to be accounted because the accounting standards impute a life to the brands or to goodwill. So there is an accounting anomaly. In fact, if you go to the macro factor, the economics factor of any brand holding, one is expected to increase the value of the brand as time goes by. Instead of that if you are going to depreciate it, I think you are going to present a very anomalous picture.
- Sanjay Singh:** So you can still depreciate it, if it is required by not running it through P&L, by running it through the balance sheet as some other companies, organizations were done, but you need not still write off the total goodwill in one shot, and hence when somebody is looking at ROE, it gives a completely different picture. By that logic, any acquisition, you do it will be always be hugely ROE accretive in that sense because at the end of the day, what you are paying is probably two values of brands, everything else and at least in Paras case, it was a just a brand, nothing else. So, anyway I think it is a debate which I can end, but my sense is, one need to understand what exactly the profile of the acquisitions are, how they are doing it, its become very difficult for somebody to do it?
- Milind Sarwate:** I think if you need any particular information, we can always give that to you and all our information including the current year, historical, everything is on our website and if you need any even something more, we can provide it to you. The idea is not to obfuscate and create some confusion in the minds of investors. I think we have very discerning investors like you who will always analyze the numbers and put them in the right perspective. So obviously, if you think that by adjusting the goodwill against reserve, we are going to get some new investors, who think our ROE is really high, I think we will be wrong in that case. So the idea is not to window-dress or present something wrong to the investors.
- Sanjay Singh:** The idea is that we always have the highest expectation of Marico, and hence we would like to believe that whatever we see from Marico is the best-in-class and my sense, this is not. So that's what I thought I put my points across.
- Milind Sarwate:** I appreciate it.
- Sanjay Singh:** Thank you Sir.
- Moderator:** Thank you. Our next question is from the line of Mr. Kulbushan Kalia, Canara HSBC Life Insurance. Please go ahead.

- Kulbhushan Kalia:** Good evening. So you mentioned that high inflationary scenario is always better for Marico, but this time the inflationary scenario is coming at a point in time wherein the demand scenario is very weak. So, how do you read that going forward and how will that actually work on your volume part of the gain?
- Saugata Gupta:** What I have mentioned is that in the inflationary scenario, we are much more competitive than what we are in a deflationary scenario. Now, as far as the demand is concerned, I don't think there is any demand issue in middle India and rural India; the demand softening is more in urban India. Now, if you look at the source of Parachute volume growth, what happens is people move from loose to branded when the price premium is at an acceptable level. When the price premium is above the acceptable level, the volume growth slows down. So the issue that is happening today in terms of the demand softening is in much higher order products where the outlays are far significant. It is happening in top-end products, it is not happening in mass products.
- Kulbhushan Kalia:** So then Parachute should not be affected by any of this?
- Saugata Gupta:** Should not get affected.
- Kulbhushan Kalia:** My other question was on the notes of accounts, note number 7, which basically talks about an unrealized loss of about 98 Crores as of September. Would you throw some light on this?
- Vivek Karve:** This 98 Crores of balance, which is lying in the hedge reserve, this pertains to a mark-to-market evaluation of the external commercial borrowing as you saw in the Vietnam acquisition. The repayment of this loan has been earmarked against the future exports, and we believe that it creates a natural hedge, and hence we are not routing the exchange gain or loss on these loans through P&L, hence they lie in hedge reserves. As and when the underlying exports in the future will realize either profit or loss depending on where the exchange goes, it will be routed through the P&L.
- Kulbhushan Kalia:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Mr. Rahul Thakur from ICICI Bank. Please go ahead.
- Rahul Thakur:** Thank you for the opportunity. Just one question, in the outlook, you have given the volume growth of about 8% to 10%. In the last two quarters, we saw volume growth of 10% and 4%. So are you seeing an uptick in the second half?
- Saugata Gupta:** I think we have to look at it from a point of view of the fact that in India business, the actual secondary volume was 9%. So we believe that 8% to 10% kind of a volume growth should get maintained, and yes, there would be also a base correction, which would have happened in the second half in Q3 and Q4, especially in Parachute, there was a lowering of volume growth rates, which had happened. So there would be slight uptick, and also there has been a very good

monsoon and we believe that going forward, in the second half, rural growth will continue to be good.

Rahul Thakur: What would be the corresponding secondary volume growth for Q1? Do you have the number?

Saugata Gupta: It's a similar. So this will be similar to primary.

Rahul Thakur: Thank you.

Moderator: Our next question is from the line of Mr. Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Thank you for the opportunity. Just one clarity Sir. Basically, if we look at the gross margin in the value-added oil segment, would those margins be comparable to the company average gross margin?

Milind Sarwate: It will be marginally higher.

Nikhil Upadhyay: Secondly, Sir, basically if we look at the volume growth in the value added hair oils, so from September 2011 to March 2013 or September 2013, if we look at the volume growth number, so barring the last this quarter and the Q1 of FY'14, our volume growth had been in the excess of 24%, 25%, and last quarter the volume growth is 16%. So, sir, 10% has been the volume growth. So is it any specific category in the value added hair oil, which is witnessing a slowdown or is it across the category?

Saugata Gupta: If you really look at it, the base keeps on increasing. Now, our secondary volume growth actually this quarter has also been 20% and we have in the past mentioned that we believe that our volume growth rates of hair oils will be in the region of 15% to 20%. Now we have more than almost doubled the volume in value added hair oils in the last three years. So the base effect starts kicking in, but we continue to be confident of delivering 15% to 20% volume growth rates in the next immediate few quarters.

Nikhil Upadhyay: Lastly, Sir, like, maybe I could be wrong, but basically if we look at 30% revenue coming from the rural India, if we look on a brand wise, so I believe Parachute would be having a much higher percentage of revenue contribution from rural India as compared to company average?

Saugata Gupta: The new products and Saffola are very urban-centric. Parachute and value added hair oils have a higher rural contribution.

Nikhil Upadhyay: 50%?

- Saugata Gupta:** Yes, see, we will not give you an exact brand-wise number, but to give you a perspective, having said that in Parachute, the rural market share actually is lower than urban, so there is enough headroom for growth there.
- Nikhil Upadhyay:** Why I am asking is basically, when we look at increasing the feet on street in order to increase our rural contribution, so additional incremental contribution from rural India, which we would be planning. So it would be more from the urban-centric brands like Saffola which you also mentioned that looking on the packaging changes, now seeing that again you have mentioned since we are looking at entering 10 more states, but would we also be looking at putting a different price differential as compared to the urban India and what other strategies could we be looking for Saffola as such?
- Saugata Gupta:** I want to clarify, I never said some 10 states or something, I said Saffola is today restricted to eight to 10 metros or mini-metros in terms of distribution. We are prototyping it in one state and we would like to see post the results if we can expand the Saffola distribution in rural. However, Saffola is a very small part of it. There is enough headroom for growth. As you know, in coconut oil, the percentage of loose oil to branded is far higher in rural than urban. Plus there is enough opportunity in value added hair oil. So, there is huge opportunity of growth. I think Saffola is not going to contribute significantly to the rural growth. It may contribute 1% to 2% extra to the Saffola growth.
- Nikhil Upadhyay:** Thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Mr. Richard Liu from JM Financial. Please go ahead.
- Richard Liu:** Thank you for taking my question. If I recall correctly earlier the stance that one use to take once that you want to probably just the input cost environment for a little longer before taking actions on pricing and I noticed that you have already done two rounds by now, 4% odd and probably 9% by the time the next round comes in and you also made a statement that you expect copra prices maybe to cool off in February. Now given the kind of environment we are living in and also considering that you are expecting a cool off, what is the expectation that inflation will actually lead to marginalization of smaller premiums does not really happened really happened. Considering that, let us say, it cools off in the February as you are expecting, and at the same time, consumer wallets are actually getting pinched. How does it I mean is my thought correct that you are a little quicker in effecting your pricing action at this time new norms we have done?
- Saugata Gupta:** See, after experiencing multiple copra cycles, we would have perfected the pricing model, but having said that, as you know that the copra price increase in the last quarter has been 29%. Obviously, whenever inflation happens, we do not pass on everything to the consumer. So, we retain some part of it and we operate margin between a band. Having said that, the copra prices in the immediate term could stay as harder it was, in terms of the increase. So when we take up prices, we do not want to take multiple price increases and decreases. Unfortunately, the situation

off late has become volatile, but we want to ensure that we operate within a certain band. So, if necessary for example, say, in quarter one of next year, if there is a sudden significant drop in copra prices, in certain recruiter packs we might pass on the value to the consumer.

Richard Liu: No, I mean, I am actually not really questioning why you are taking prices et cetera, but I recall that the stance was that you would like to minimize the disturbances in the market place as much as possible, and considering that it is really a weak macro situation right now, and so on and so forth, I was just wondering if there is a sudden change in the thought process in terms of how we are going about doing your pricing or is there I mean, it is really a painful situation right now where obviously there is no pricing growth in the magnitude and the revenue growth is also lower, and that is obviously getting reflected in your profit growth as well to the extent that the revenue growth is compressed. Does that have any bearing on the slightly quicker than expected pricing change at this time than you would normally have done otherwise?

Saugata Gupta: No, I would not think so. If you look at the entire FMCG sector, you will see last quarter, everybody had inflationary factor of around 4% to 5%. We were having actually deflationary effect and when I am saying that we have taken a 9% increase, we have taken a 9% increase from the actual reduced prices, which we had done in Q2FY13. So in effect versus say last year in second half, the price increase is in the region of 3% to 4%. So in terms of outlay, a consumer on Rs.50 will actually pay Rs.2 extra. It is not a significant increase, pinching on the pocket.

Richard Liu: No, I mean, where I was also coming from was also with respect to the assumption on how the smaller players would react. I think I mean, assuming the consumers behave normally as they usually do, of course I mean part of the benefit will also flow in if the marginal guys get further marginalized because of volatility in input cost, etc. In case, you do see a reversal in copra costs in terms of it starts depleting again, do not you think the situation could become a little tricky?

Saugata Gupta: I think at the end of the day, we have a reasonably perfected pricing model to take care of this. We, given the fact that managing volatility and uncertainty is something, which we are much better at than what we were, say, two cycles ago. Having said that, just to give you a piece of input, the loose players in the market would have taken a 30% price hike in the last three, four weeks. So I think you will understand in relation to that how we have done.

Richard Liu: Just carrying on that for a little while, so I mean this would therefore have bridged the gap between you and unorganized guys here a quite a bit?

Saugata Gupta: As I said, in an inflationary situation, we are more price competitive, yes.

Richard Liu: So other things remaining constant, would the competitive scale be already tilting in your favor in terms of how it typically pans out in an inflationary situation in terms of more volumes coming back to you?

Saugata Gupta: We will see what pans out in the next couple of weeks and in the quarter.

- Richard Liu:** Thanks a tonne and wish you all the best.
- Moderator:** Thank you. Our next question is from the line of Mr. Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, could you share the market share in muesli?
- Saugata Gupta:** It is around 11% to 12% and in oats it is 17% now.
- Abneesh Roy:** Sir, in oats, if I see the quarterly market shares for the past few quarters has remained stable at 13%. Exit is 17%, and if I see the number one player in that category here, they seem to be doing now very similar to what you had pioneered. So would it be fair to say now that headroom for further market share expansion will be very difficult, because if you see they are focusing on Rs.10, they are focusing on masala offerings. So where is the differentiation now available?
- Saugata Gupta:** I think for a category, which is growing at a certain rate when you offer a differentiated product to a consumer, there is enough headroom for more than two players to grow this category and the market share which we are going to grow is in the value-added space because we believe that there is not enough opportunity for differentiation in the plain oats category. So, we have a superior product differentiation and it's not that everybody is playing in the category and two to three players can help grow the category. We are focusing on the value-added portion of the segment. So an entire significant portion of the growth is coming from the value-added portion of the segment. So, there is enough opportunity to drive value share growth in this category.
- Abneesh Roy:** My next question is on the CSD channel, if you could share what's the growth we have seen in Q2 and why are the receivables gone there? Any concern or is it a normal cycle that moves up and then it's more bumpy and more, it will be back on track?
- Saugata Gupta:** CSD volumes are back on track and it's come to the normal growth rate and I think obviously there were some bumpy rides for lots of players, some last year and when there was a stock adjustment and other things in CSD, but I think it is growing back to normal now.
- Abneesh Roy:** So, when you say normal, it is now mirroring the overall growth rate, or it's mirroring the earlier growth rate of which CSD?
- Saugata Gupta:** Mirroring the overall growth rate.
- Abneesh Roy:** Lastly, skin cream, again you have done quite well this quarter also. So, how are you seeing Q3, some of the other FMCG companies have put in lot of inventory into the channels, expecting a strong winter? So are we also doing that? And any differentiation we are bringing to the market for the winter?
- Saugata Gupta:** So, we have a new variant and also if others are doing it, we are also doing it.

- Abneesh Roy:** Thanks and all the best.
- Moderator:** Thank you. Our next question is from the line of Mr. Rohit Gajare from UTI Asset Management. Please go ahead.
- Rohit Gajare:** This is just a clarification on the loss outstanding in the balance sheet on the unrealized depreciation of rupee of 98 Crores. So, what you are saying is are the foreign loans gets repaid over six years, I think, right, starting from February 14 till February 16, you will actually realize this loss in the P&L. This is not going to balance sheet, assuming the rupee stays at current levels obviously.
- Milind Sarwate:** You are right.
- Rohit Gajare:** Thank you.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Harit Kapoor for closing comments.
- Harit Kapoor:** Thanks Lavina. On behalf of IDFC, we would like to thank the senior management of Marico for taking out the time as well as all the participants on the call. Sir, would you have any closing remarks.
- Milind Sarwate:** Nothing in particular.
- Harit Kapoor:** So, we can close the call.
- Moderator:** Thank you Sir. Participants with that we conclude the conference. Thank you for joining us. You may now disconnect your lines. Thank you.